

The PRSP and the Strategic Vision served as the foundation from which the Government launched a broad consultative effort to develop the MCC Proposal.

(b) Consultative Process. Building on the PRSP process, the consultative process for developing the MCC Proposal involved several steps. Shortly after being informed of its eligibility for MCA funding, the Government developed a list of priority areas for economic development and began soliciting feedback from a wide variety of civil society actors. MCA-Georgia organized eight community roundtable sessions, including one in each of Georgia's five regions, one with the country's business community, and two with a cross-section of non-governmental organizations (NGOs). MCA-Georgia also sponsored public comment boxes, television advertisements, radio and television talk show programs, brochures and a documentary film. This public outreach generated 2,100 calls, 1,500 web hits, 500 walk-ins, and 400 e-mails and ultimately resulted in 531 specific proposals and more than 140 written inquiries.

Following initial outreach, MCA-Georgia staff prioritized specific proposals on the basis of their likely economic impact, role in reducing poverty and connection to policy reform goals. MCA-Georgia found a strong consensus in favor of interventions in agriculture and food processing, infrastructure and tourism, areas around which an initial Proposal was then developed.

MCA-Georgia posted an abridged proposal on its website, appointed a public outreach officer and continued to hold public outreach sessions. In March 2005, MCA-Georgia held a public meeting for small and medium enterprises with the Georgian Federation of Businesses, then reached out in April to explain its proposal for the Samtskhe-Javakheti road, gas supply pipeline, and the regional infrastructure development facility directly to stakeholders in those project activities.

2. Overview.

(a) Program Objectives. The Program involves a series of specific and complementary interventions that the Parties expect will achieve the Program Objective of increased economic growth and poverty reduction in the regions of Georgia and the Project Objectives of rehabilitating key regional infrastructure and developing enterprises in the Regions.

(b) Projects. The Parties have identified, for each Objective, Projects that they intend for the Government to implement, or cause to be implemented, using MCC Funding, each of which is described in the Schedules to this Program Annex. The Schedules to this Program Annex identify the activities that will be undertaken in furtherance of each Project (each, a "**Project Activity**"). Notwithstanding anything to the contrary in this Compact, the Parties may agree to amend, terminate or suspend these Projects or Project Activities or create a new project by written agreement signed by the Principal Representative of each Party without amending this Compact; *provided, however*, any such amendment of a Project or Project Activity or creation of a new project is (i) consistent with the Objectives; (ii) does not cause the amount of MCC Funding to exceed the aggregate amount specified in Section 2.1(a) of this Compact; (iii) does not cause the Government's responsibilities or contribution of resources to be less than specified in Section 2.2 of this Compact or elsewhere in this Compact; and (iv) does not extend the Compact Term.

(c) Beneficiaries. The intended beneficiaries of each Project are described in the respective Schedule to this Program Annex to the extent identified as of the date hereof. The intended beneficiaries shall be identified more precisely during the initial phases of the implementation of the Program. The Parties shall agree upon the description of the intended beneficiaries of the Program, including publishing such description on the website operated by MCA-Georgia.

(d) Civil Society. Civil society will participate in overseeing the implementation of the Program through its representation through an Observer to the Supervisory Board and through the role of the Stakeholders' Committee, as provided in Section 3(d) of this Program Annex. In addition, the Work Plans and/or Procurement Plans for each Project shall note the extent to which civil society will have a role in the implementation of a particular Project Activity.

(e) Monitoring and Evaluation. Annex III of this Compact generally describes the plan to measure and evaluate progress toward achievement of the Objectives of this Compact (the "*M&E Plan*"). As outlined in the Disbursement Agreement and other Supplemental Agreements, continued payment of MCC Funding under this Compact will be contingent on successful achievement of targets set forth in the M&E Plan.

3. **Implementation Framework.**

The implementation framework and the plan for ensuring adequate governance, oversight, management, monitoring, evaluation and fiscal accountability for the use of MCC Funding is summarized below and in the Schedules attached to this Program Annex, or as may otherwise be agreed in writing by the Parties.

(a) General. The elements of the implementation framework will be further described in relevant Supplemental Agreements and in a detailed plan for the implementation of the Program and each Project (the "*Implementation Plan*"), which will be memorialized in one or more documents and shall consist of a Financial Plan, a Fiscal Accountability Plan, a Procurement Plan, Program and Project Work Plans, and an M&E Plan. MCA-Georgia shall adopt each component of the Implementation Plan in accordance with the requirements and timeframe as may be specified in this Program Annex, the Disbursement Agreement or as may otherwise be agreed by the Parties from time to time. MCA-Georgia may amend the Implementation Plan or any component thereof without amending this Compact, provided any material amendment of the Implementation Plan or any component thereof has been approved by MCC and is otherwise consistent with the requirements of this Compact and any relevant Supplemental Agreement between the Parties. By such time as may be specified in the Disbursement Agreement or as may otherwise be agreed by the Parties from time to time, MCA-Georgia shall adopt one or more work plans for the overall administration of the Program and for each Project (collectively, the "*Work Plans*"). The Work Plan(s) shall set forth the details of each activity to be undertaken or funded by MCC Funding as well as the allocation of roles and responsibilities for specific Project activities, or other programmatic guidelines, performance requirements, targets, or other expectations for a Project.

(b) Government. The Government shall promptly take all necessary and appropriate actions to carry out the Government Responsibilities and other obligations or responsibilities of the Government under and in furtherance of this Compact, including undertaking or pursuing such legal, legislative or regulatory actions, procedural changes and contractual arrangements as may be necessary or appropriate to achieve the Objectives, to successfully implement the Program, and to establish a legal entity, in a form mutually agreeable to the Parties, MCA-Georgia, which shall be responsible for the oversight and management of the implementation of this Compact on behalf of the Government. The Government shall ensure that MCA-Georgia is duly authorized and sufficiently organized, staffed and empowered to fully carry out the Designated Rights and Responsibilities. Without limiting the generality of the preceding sentence, MCA-Georgia shall be organized, and have such roles and responsibilities, as described in Section 3(d) of this Program Annex and as provided in the Governance Agreement and any Governing Documents and in applicable law and in governance regulations promulgated in furtherance thereof ("**Governance Regulations**"), which shall be in a form and substance satisfactory to MCC; *provided, however*, the Government may, subject to MCC approval, carry out any of the roles and responsibilities designated to be carried out by MCA-Georgia and described in Section 3(d) of this Program Annex or elsewhere in this Program Annex, applicable law, the Governance Regulations, or any Supplemental Agreement prior to and during the initial period of the establishment and staffing of MCA-Georgia, but in no event longer than the earlier of (i) the formation of the Supervisory Board and the engagement of each of the Officers and (ii) six months from the Entry into Force, unless otherwise agreed by the Parties in writing.

(c) MCC.

(i) Notwithstanding Section 3.1 of this Compact or any provision in this Program Annex to the contrary, and except as may be otherwise agreed upon by the Parties from time to time, MCC must approve in writing each of the following transactions, activities, agreements and documents prior to the execution or carrying out of such transaction, activity, agreement or document and prior to MCC Disbursements or Re-Disbursements in connection therewith:

- (1) MCC Disbursements;
- (2) The Financial Plan and any amendments and supplements thereto;
- (3) Agreements (i) between the Government and MCA-Georgia, (ii) between the Government, MCA-Georgia or other Government Affiliate, on the one hand, and any Provider or Affiliate of a Provider, on the other hand, which require such MCC approval under applicable law, the Governance Regulations, the Procurement Agreement, Procurement Guidelines or any Supplemental Agreement, or (iii) in which the Government, MCA-Georgia or other Government Affiliate appoints, hires or engages any of the following in furtherance of this Compact:

- (A) Auditor;
- (B) Fiscal Agent;

- (C) Bank;
- (D) Procurement Agent;
- (E) Outside Project Manager;
- (F) Implementing Entity; and
- (G) Director, Observer, Officer and/or other key employee or contractor of MCA-Georgia, including any compensation for such person.

(Any agreement described in clause (i) through (iii) of this Section 3(c)(i)(3) and any amendments and supplements thereto, each, a "**Material Agreement**");

(4) Any modification, termination or suspension of a Material Agreement, or any action that would have the effect of such a modification, termination or suspension of a Material Agreement;

(5) Any agreement that is (i) not at arm's length or (ii) with a party related to the Government, including MCA-Georgia, or any of their respective Affiliates;

(6) Any Re-Disbursement (each, a "**Material Re-Disbursement**") that requires such MCC approval under applicable law, the Governance Regulations, the Procurement Agreement, Procurement Guidelines or any Supplemental Agreement;

(7) Terms of reference for the procurement of goods, services or works that require such MCC approval under applicable law, the Governance Regulations, the Procurement Agreement, Procurement Guidelines or any Supplemental Agreement (each, a "**Material Terms of Reference**");

(8) The Implementation Plan, including each component plan thereto, and any material amendments and supplements to the Implementation Plan or any component thereto;

(9) Any pledge of any MCC Funding or any Program Assets or any guarantee (directly or indirectly) of any indebtedness (each, a "**Pledge**");

(10) Any decree, legislation, contractual arrangement or other document establishing or governing MCA-Georgia, including the Governance Regulations, and any disposition (in whole or in part), liquidation, dissolution, winding up, reorganization or other change of (A) MCA-Georgia, including any revocation or modification of, or supplement to, any decree, legislation, contractual arrangement or other document establishing MCA-Georgia, or (B) any subsidiary or Affiliate of MCA-Georgia;

- (11) Any change in character or location of any Permitted Account;
- (12) Formation or acquisition of any subsidiary (direct or indirect) or other Affiliate of MCA-Georgia;
- (13) Any (A) change of a Director, Observer, Officer or other key employee or contractor of MCA-Georgia, or in the composition of the Supervisory Board, including approval of the nominee for Chair, or (B) filling of any vacant seat of the Chair, a Director or an Observer or vacant position of an Officer or other key employee or contractor of MCA-Georgia;
- (14) The management information system to be developed and maintained by the Management Team of MCA-Georgia, and any material modifications to such system;
- (15) Any decision to amend, supplement, replace, terminate or otherwise change any of the foregoing; and
- (16) Any other activity, agreement, document or transaction requiring the approval of MCC in this Compact, applicable law, the Governance Regulations, the Procurement Agreement, Procurement Guidelines, the Disbursement Agreement, or any other Supplemental Agreement between the Parties.

The Chair of the Supervisory Board (the "*Chair*") and/or the Chief Executive Officer of MCA-Georgia (the "*Chief Executive Officer*") or other designated officer, as provided in applicable law and the Governance Regulations, shall certify any documents or reports delivered to MCC in satisfaction of the Government's reporting requirements under this Compact or any Supplemental Agreement between the Parties (the "*Compact Reports*").

(ii) MCC shall have the authority to exercise its approval rights set forth in this Section 3(c) in its sole discretion and independent of any participation or position taken by the MCC Representative at a meeting of the Supervisory Board. MCC retains the right to revoke its approval of a matter if MCC concludes that its approval was issued on the basis of incomplete, inaccurate or misleading information furnished by the Government or MCA-Georgia.

(d) MCA-Georgia.

(i) General. Unless otherwise agreed by the Parties in writing, MCA-Georgia shall be responsible for the oversight and management of the implementation of this Compact. MCA-Georgia shall be governed by the terms and conditions set forth in applicable law and in the Governance Regulations based on the following principles:

(1) The Government shall ensure that MCA-Georgia shall not assign, delegate or contract any of the Designated Rights and Responsibilities without the prior written consent of the Government and MCC. MCA-Georgia shall not establish any Affiliates or

subsidiaries (direct or indirect) without the prior written consent of the Government and MCC;
and

(2) Unless otherwise agreed by the Parties in writing, MCA-Georgia shall consist of (A) an independent board of directors (the "***Supervisory Board***") to oversee MCA-Georgia's responsibilities and obligations under this Compact (including any Designated Rights and Responsibilities), (B) a management team (the "***Management Team***") to have overall management responsibility for the implementation of this Compact, and (C) a Stakeholders' Committee to provide feedback on Program activities to the Supervisory Board and the Management Team.

(ii) Supervisory Board.

(1) Formation. The Government shall ensure that the Supervisory Board shall be formed, constituted, governed, maintained and operated in accordance with applicable law and the terms and conditions set forth in this Section 3(d), the Governance Regulations and relevant Supplemental Agreements. As a condition for Entry into Force, the Government shall have amended the charter of MCA-Georgia, to the satisfaction of MCC, to provide for waiver of the control of the State Controlling Body over the management and operations of MCA-Georgia. The charter of MCA-Georgia shall also be amended to reflect the composition of the Supervisory Board.

(2) Composition. Unless otherwise agreed by the Parties in writing, the Supervisory Board shall consist of (i) eight (8) voting members (the "***Voting Members***"), (ii) the Chief Executive of MCA-Georgia, who shall be a non-voting member, and (iii) two (2) non-voting observers (the "***Observers***"), each of which must be acceptable to MCC, taking into consideration appropriate gender and ethnic representation.

(A) The Voting Members shall be as follows:

- (i) Three (3) members of the executive branch of Government representing Ministries of the Government (one of whom shall be the Prime Minister);
- (ii) One (1) member who shall be the head of the President's administration (together with the three members listed in (i) above, the "***Government Board Members***");
- (iii) Two (2) members of Parliament ("***Parliament Board Member***");
- (iv) One (1) representative of a civil society organization; and

- (v) One (1) representative from the business sector.

The following provisions apply to the Voting Members:

- a. The Voting Members may, by a majority vote, expand the Supervisory Board with the approval of MCC;
- b. Each Government Board Member may be replaced by another government official, subject to approval by the Government and MCC;
- c. Subject to the Governance Agreement, the Parties contemplate that the Prime Minister shall initially fill the seat of Chair; and
- d. Each Government Board Member position shall be filled by the individual then holding the office identified and such individuals shall serve in their capacity as the applicable Government official and not in their personal capacity. In the event that a Government Board Member or a Parliament Board Member is unable to participate in a meeting of the Supervisory Board such member's principal deputy or equivalent (or in the case of a Parliament Board Member, another member of Parliament) may participate in the member's stead.

(B) The Observers shall be:

- (i) A representative (the "*MCC Representative*") appointed by MCC; and
- (ii) One representative of civil society nominated by the Stakeholders' Committee (the "*Civil Observer*"). The initial Civil Observer shall serve for a period of one year from the date of the first Supervisory Board meeting after the Entry into Force, and on each anniversary thereof, the Stakeholders' Committee shall appoint another of its members to serve as a Civil Observer for the subsequent year. The Civil Observer may nominate an alternate from among the Stakeholders' Committee to attend one

or more meetings of the Supervisory Board in the event that the Civil Observer is unable to attend.

The following provision applies to the Observers:

- a. Each Observer shall have the right to attend all meetings of the Supervisory Board, participate in discussions of the Supervisory Board, and receive all information and documents provided to the Supervisory Board, together with any other rights of access to records, employees or facilities as would be granted to a member of the Supervisory Board under the Governance Agreement and any Governing Document.

(3) Role and Responsibilities.

- (A) The Supervisory Board shall oversee the overall implementation of the Program and the performance of the Designated Rights and Responsibilities.
- (B) Certain actions may be taken, and certain agreements and other documents may be executed and delivered, by MCA-Georgia only upon the approval and authorization of the Supervisory Board as provided under applicable law and in the Governance Regulations, including each MCC Disbursement Request, selection or termination of certain Providers, any component of the Implementation Plan, certain Re-Disbursements and certain terms of reference.
- (C) The Chair shall certify the approval by the Supervisory Board of all Compact Reports or any other documents or reports from time to time delivered to MCC by MCA-Georgia (whether or not such documents or reports are required to be delivered to MCC), and that such documents or reports are true, accurate and complete.
- (D) Without limiting the generality of the Designated Rights and Responsibilities, and subject to MCC's contractual rights of approval as set forth in Section 3(c) of this Program Annex or elsewhere in this Compact or any relevant Supplemental Agreement, the Supervisory Board shall have the exclusive authority for all actions defined for the Supervisory Board under applicable law and in the Governance Regulations and which are expressly

designated therein as responsibilities that cannot be delegated further.

(4) Meetings. The Supervisory Board shall hold at least quarterly meetings as well as such other periodic meetings or subcommittee meetings as may be necessary from time to time.

(5) Indemnification of Civil Observer; MCC Representative. The Government shall ensure, at the Government's sole cost and expense, that appropriate insurance is obtained and appropriate indemnifications and protections are provided, acceptable to MCC, to ensure that Civil Observers shall not be held personally liable for the actions or omissions of the Supervisory Board. Pursuant to Section 5.5 and Section 5.8 of this Compact, the Government and MCA-Georgia shall hold harmless the MCC Representative for any liability or action arising out of the MCC Representative's role as a non-voting observer on the Supervisory Board. The Government hereby waives and releases all claims related to any such liability. In matters arising under or relating to the Compact, the MCC Representative is not subject to the jurisdiction of the courts or other body of Georgia.

(iii) Management Team. Unless otherwise agreed in writing by the Parties, the Management Team shall report, through the Chief Executive Officer or other Officer as designated in the Governance Agreement, directly to the Supervisory Board and to the Stakeholders' Committee, and shall have the composition, roles and responsibilities described below and set forth more particularly in the Governance Agreement and any Governing Document.

(1) Composition. The Government shall ensure that the Management Team shall be composed of qualified experts from the public or private sectors, including such offices and staff as may be necessary to carry out effectively its responsibilities, each with such powers and responsibilities as set forth in the Governance Agreement, any Governing Document, and from time to time in any Supplemental Agreement between the Parties, including without limitation the following: (i) Chief Executive Officer, (ii) a deputy director, (iii) five project directors, (iv) an environment and social impact director, (v) chief financial officer, (vi) a procurement director, (vii) a public outreach director, (viii) a monitoring and evaluation director, and (ix) a general counsel. The Management Team will be supported by an office manager and appropriate administrative and support personnel.

(2) Appointment of Management Team. Unless otherwise specified in the Governance Agreement or any Governing Documents, the Management Team shall be selected and hired by the Chief Executive Officer after an open and competitive recruitment and selection process, which appointment shall be subject to the approval of the Supervisory Board and MCC.

(3) Role and Responsibilities.

(A) The Management Team shall assist the Supervisory Board in overseeing the implementation of the Program and shall have principal responsibility (subject to the direction and

oversight of the Supervisory Board and subject to MCC's contractual rights of approval as set forth in Section 3(c) of this Program Annex or elsewhere in this Compact or any relevant Supplemental Agreement) for the overall management of the implementation of the Program.

- (B) The Management Team shall report to and meet with, on a quarterly basis, the Stakeholders' Committee, and shall include a report on the feedback provided by the Stakeholders' Committee and the ways in which that feedback has informed the activities of MCA-Georgia in the next following quarterly report to the Supervisory Board.
- (C) Without limiting the foregoing general responsibilities or the generality of Designated Rights and Responsibilities that the Government may designate MCA-Georgia, the Management Team shall develop the components of the Implementation Plan, oversee the implementation of the Projects, manage and coordinate monitoring and evaluation, maintain internal accounting records, conduct and oversee certain procurements, and such other responsibilities as set out in the Governance Agreement or delegated to the Management Team by the Supervisory Board from time to time.
- (D) Appropriate Officers shall have the authority to contract on behalf of MCA-Georgia under any procurement under the Program.
- (E) The Management Team shall have the obligation and right to approve certain actions and documents or agreements, including certain Re-Disbursements, MCC Disbursement Requests, Compact Reports, certain human resources decisions, and certain procurement actions, as provided in the Governance Agreement.

(iv) Stakeholders' Committee.

(1) Composition. The Government shall ensure the establishment of a stakeholders' committee (the "*Stakeholders' Committee*") consisting of at least eight (8) members, taking into consideration appropriate gender and ethnic representation, unless otherwise agreed by the Parties, and comprised of the following individuals:

- (A) Three (3) representatives of civil societies, (one of whom shall come from an organization in the Samtske-Javakheti region and one of whom shall come from an environmental

organization) identified through a process that provides widespread notice of the formation of the Stakeholders' Committee;

- (B) The head of the Agrarian Committee of Parliament;
- (C) The head of the Road Department of the Ministry of Economic Development;
- (D) One (1) senior representative from the Ministry of the Environment; and
- (E) Two (2) senior representatives of the business community, one of which should have experience in agribusiness and one of which should have experience in the financial sector.

Each Stakeholders' Committee member may appoint an alternate, approved by majority vote of the other members, to serve when he or she is unable to participate in a meeting of the Stakeholders' Committee.

(2) Formation. The Government shall take all action necessary and appropriate actions to ensure the Stakeholders' Committee is established consistent with this Schedule and as otherwise specified in the Governance Agreement or otherwise agreed in writing by the Parties. The composition of the Stakeholders' Committee may be adjusted by agreement of the Parties from time to time to ensure, among other things, a cross-section representative of the intended beneficiaries. The number of members of the Stakeholders' Committee may be increased, but in no event to more than twelve (12) members, upon the majority vote of the then existing members and the vacancies created by such increase shall be filled by the majority vote of the then existing members, subject to the approval of MCA-Georgia and MCC.

(3) Role and Responsibilities.

- (A) The Stakeholders' Committee shall be a mechanism to provide representatives of the private sector, civil society and local and regional governments the opportunity to provide advice and input to MCA-Georgia regarding the implementation of the Compact.
- (B) During quarterly meetings of the Stakeholders' Committee, the Management Team shall present an update on the implementation of this Compact and progress towards achievement of the Objectives. The Management Team shall provide copies of the M&E Plan, the Implementation Plan, and reports on the Projects and Project Activities.

The Stakeholders' Committee will have an opportunity to regularly provide to the Chief Executive Officer and to the Supervisory Board its views and recommendations. The Supervisory Board may, in response to the Stakeholders' Committee, require the Management Team to provide such other information and documents as the Supervisory Board deems advisable.

(C) The Management Team shall include in its quarterly reports to the Supervisory Board, a report on the Stakeholders' Committee meetings that occurred during the period covered by such report.

(D) The Stakeholders' Committee shall appoint one of their members to be the secretary to, among other things, take official minutes of the meetings of the Stakeholders' Committee.

(4) Meetings. The Stakeholders' Committee shall hold quarterly meetings of the full Stakeholders' Committee as well as such other periodic meetings of the Stakeholders' Committee or subcommittees thereof designated along sectoral, regional, or other lines, as may be necessary or appropriate from time to time.

(5) Accessibility; Transparency. Stakeholders' Committee members will be accessible to the beneficiaries they represent to receive the beneficiaries' comments or suggestions regarding the Program. The minutes of all meetings of the Stakeholders' Committee and any subcommittees shall be made public on the MCA-Georgia Website in a timely manner.

(e) Outside Project Manager. MCA-Georgia shall have the authority to engage qualified entities to serve as outside project managers (each, an "*Outside Project Manager*") in the event that it is advisable to do so for the proper and efficient day-to-day management of a Project; *provided, however*, that the appointment or engagement of any Outside Project Manager after a competitive selection process shall be subject to approval by the Supervisory Board and MCC prior to such appointment or engagement. Upon Supervisory Board approval, MCA-Georgia may delegate, assign, or contract to the Outside Project Managers such duties and responsibilities as it deems appropriate with respect to the management of the Implementing Entities and the implementation of the specific Projects; and *provided, further*, that the Management Team shall remain accountable for those duties and responsibilities and all reports delivered by the Outside Project Manager notwithstanding any such delegation, assignment or contract and the Outside Project Manager shall be subject to the oversight of the Fiscal Agent and Procurement Agent. The Supervisory Board may determine that it is advisable to engage one or more Outside Project Managers and instruct MCA-Georgia and, where appropriate, a Procurement Agent to commence and conduct the competitive selection process for such Outside Project Manager. The key provisions relating to Outside Project Managers for certain of the Project Activities are set out in the Schedule to this Annex.

(f) Implementing Entities. Subject to the terms and conditions of this Compact and any other Supplemental Agreement between the Parties, MCA-Georgia may provide MCC Funding, (directly or indirectly) through an Outside Project Manager, to one or more Government Affiliates or to one or more nongovernmental or other public- or private-sector entities or persons to implement and carry out the Projects or any other activities to be carried out in furtherance of this Compact (each, an **"Implementing Entity"**). The Government shall ensure that MCA-Georgia (or the appropriate Outside Project Manager) enters into an agreement with each Implementing Entity, in form and substance satisfactory to MCC, that sets forth the roles and responsibilities of such Implementing Entity and other appropriate terms and conditions, such as payment of the Implementing Entity (the **"Implementing Entity Agreement"**). An Implementing Entity shall report directly to MCA-Georgia or the Outside Project Manager, as designated in the applicable Implementing Entity Agreement or as otherwise agreed by the Parties. The key provisions relating to Implementing Entity Agreements for certain of the Project Activities are set out in the Schedules to this Annex.

(g) Fiscal Agent. The Government shall ensure that MCA-Georgia engages one or more fiscal agents (each, a **"Fiscal Agent"**), who shall be responsible for, among other things, (i) ensuring and certifying that Re-Disbursements are properly authorized and documented in accordance with established control procedures set forth in the Disbursement Agreement, the Fiscal Agent Agreement and other relevant Supplemental Agreements, (ii) instructing a Bank to make Re-Disbursements from a Permitted Account, following applicable certification by the Fiscal Agent, (iii) providing applicable certifications for MCC Disbursement Requests, (iv) maintaining proper accounting of all MCC Funding financial transactions, and (v) producing reports on MCC Disbursements and Re-Disbursements (including any requests therefore) in accordance with established procedures set forth in the Disbursement Agreement, the Fiscal Agent Agreement or any other relevant Supplemental Agreements. Upon the written request of MCC, the Government shall ensure that MCA-Georgia terminates a Fiscal Agent, without any liability to MCC, and the Government shall ensure that MCA-Georgia engages a new Fiscal Agent, subject to the approval by the Supervisory Board and MCC. The Government shall ensure that MCA-Georgia enters into an agreement with each Fiscal Agent, in form and substance satisfactory to MCC, that sets forth the roles and responsibilities of the Fiscal Agent and other appropriate terms and conditions, such as payment of the Fiscal Agent (**"Fiscal Agent Agreement"**).

(h) Auditors and Reviewers. The Government shall ensure that MCA-Georgia carries out the Government's audit responsibilities as provided in Sections 3.8(d), (e) and (f), including engaging one or more auditors (each, an **"Auditor"**) required by Section 3.8(d). As requested by MCC in writing from time to time, the Government shall ensure that MCA-Georgia shall also engage an independent (i) reviewer to conduct reviews of performance and compliance under this Compact pursuant to Section 3.8(f), which reviewer shall have the capacity to (1) conduct general reviews of performance or compliance, (2) conduct environmental audits, and (3) conduct data quality assessments in accordance with the M&E Plan, as described more fully in Annex III, and/or (ii) evaluator to assess performance as required under the M&E Plan (each, a **"Reviewer"**). MCA-Georgia shall select the Auditor(s) or Reviewers in accordance with the Governance Regulations or relevant Supplemental Agreement. The Government shall ensure that MCA-Georgia enters into an agreement with each Auditor or Reviewer, in form and substance satisfactory to MCC, that sets forth the roles and responsibilities of the Auditor or Reviewer with respect to the audit, review or evaluation, including access rights, required form

and content of the applicable audit, review or evaluation and other appropriate terms and conditions such as payment of the Auditor or Reviewer (the "**Auditor / Reviewer Agreement**"). In the case of a financial audit required by Section 3.8(f), such Auditor / Reviewer Agreement shall be effective no later than 120 days prior to the end of the relevant fiscal year or other period to be audited; *provided, however*, if MCC requires concurrent audits of financial information or reviews of performance and compliance under this Compact, then such Auditor / Reviewer Agreement shall be effective no later than a date agreed by the Parties.

(i) **Procurement Agent.** If requested by MCC, the Government shall ensure that MCA-Georgia engages one or more procurement agents (each, a "**Procurement Agent**") to carry out and/or certify specified procurement activities in furtherance of this Compact on behalf of the Government, MCA-Georgia, any Outside Project Manager or Implementing Entity. The role and responsibilities of such Procurement Agent and the criteria for selection of a Procurement Agent shall be as set forth in the applicable Implementation Letter or Supplemental Agreement. The Government shall ensure that MCA-Georgia enters into an agreement with the Procurement Agent, in form and substance satisfactory to MCC, that sets forth the roles and responsibilities of the Procurement Agent with respect to the conduct, monitoring and review of procurements and other appropriate terms and conditions, such as payment of the Procurement Agent (the "**Procurement Agent Agreement**"). Any Procurement Agent shall adhere to the procurement standards set forth in the Procurement Agreement and Procurement Guidelines and ensure procurements are consistent with the procurement plan (the "**Procurement Plan**") adopted by MCA-Georgia, which plan shall forecast the upcoming six month procurement activities and be updated every six months.

4. **Finances and Fiscal Accountability.**

(a) **Financial Plan.**

(i) **Financial Plan.** The multi-year financial plan for the Program and for each Project (the "**Multi-Year Financial Plan**") is summarized in Annex II to this Compact.

(ii) **Detailed Financial Plan.** During the Compact Term, the Government shall ensure that MCA-Georgia delivers to MCC for approval timely financial plans that detail the annual and quarterly budget and projected cash requirements for the Program (including administrative costs) and each Project, projected both on a commitment and cash requirement basis (each, a "**Detailed Financial Plan**"). Each Detailed Financial Plan shall be delivered by such time as specified in the Disbursement Agreement or as may otherwise be agreed by the Parties. The Multi-Year Financial Plan and each Detailed Financial Plan and each amendment, supplement or other change thereto are collectively, the "**Financial Plan.**"

(iii) **Expenditures.** No financial commitment involving MCC Funding shall be made, no obligation of MCC Funding shall be incurred, and no Re-Disbursement shall be made or MCC Disbursement Request submitted for any activity or expenditure, unless the expense is provided for in the Detailed Financial Plan and unless uncommitted funds exist in the balance of the Detailed Financial Plan for the relevant period or unless the Parties otherwise agree in writing.

(iv) Modifications to Financial Plan. Notwithstanding anything to the contrary in this Compact, MCA-Georgia may amend or supplement the Financial Plan or any component thereof without amending this Compact, provided any material amendment or supplement has been approved by MCC and is otherwise consistent with the requirements of this Compact and any relevant Supplemental Agreement between the Parties.

(b) Disbursement and Re-Disbursement. The Disbursement Agreement (and disbursement schedules thereto), as amended from time to time, shall specify the terms, conditions and procedures on which MCC Disbursements and Re-Disbursements shall be made. The obligation of MCC to make MCC Disbursements or approve Re-Disbursements is subject to the fulfillment or waiver of any such terms and conditions. The Government and MCA-Georgia shall jointly submit the applicable request for an MCC Disbursement (the "**MCC Disbursement Request**") as may be specified in the Disbursement Agreement. MCC will make MCC Disbursements in tranches to a Permitted Account from time to time as provided in the Disbursement Agreement or as may otherwise be agreed by the Parties, subject to Program requirements and performance by the Government, MCA-Georgia and other relevant parties in furtherance of this Compact. Re-Disbursements will be made from time to time based on requests by an authorized representative of the appropriate party designated for the size and type of Re-Disbursement in accordance with the Governance Regulations and Disbursement Agreement; *provided, however*, unless otherwise agreed by the Parties in writing, no Re-Disbursement shall be made unless and until the written approvals specified herein or in the Governance Regulations and Disbursement Agreement for such Re-Disbursement have been obtained and delivered to the Fiscal Agent.

(c) Fiscal Accountability Plan. By such time as specified in the Disbursement Agreement or as otherwise agreed by the Parties, MCA-Georgia shall adopt as part of the Implementation Plan a fiscal accountability plan that identifies the principles and mechanisms to ensure appropriate fiscal accountability for the use of MCC Funding provided under this Compact, including the process to ensure that open, fair, and competitive procedures will be used in a transparent manner in the administration of grants or cooperative agreements and the procurement of goods and services for the accomplishment of the Objectives (the "**Fiscal Accountability Plan**"). The Fiscal Accountability Plan shall set forth, among other things, requirements with respect to the following matters: (i) funds control and documentation; (ii) separation of duties and internal controls; (iii) accounting standards and systems; (iv) content and timing of reports; (v) policies concerning public availability of all financial information; (vi) cash management practices; (vii) procurement and contracting practices, including timely payment to vendors; (viii) the role of independent auditors; and (ix) the roles of fiscal agents and procurement agents.

(d) Permitted Accounts. The Government shall establish, or cause to be established, such accounts (each, a "**Permitted Account**," and collectively "**Permitted Accounts**") as may be agreed by the Parties in writing from time to time, including:

(i) A single, completely separate U.S. Dollar interest-bearing account (the "**Special Account**") at a commercial bank that is procured through a competitive process to receive MCC Disbursements;

(ii) If necessary, an interest-bearing local currency of Georgia account (the "**Local Account**") at the commercial bank to which the Fiscal Agent may authorize transfer from any U.S. Dollar Permitted Account for the purpose of making Re-Disbursements payable in local currency; and

(iii) Such other interest-bearing accounts to receive MCC Disbursements in such banks as the Parties mutually agree upon in writing.

No other funds shall be commingled in a Permitted Account other than MCC Funding and Accrued Interest thereon. All MCC Funding held in an interest-bearing Permitted Account shall earn interest at a rate of no less than such amount as the Parties may agree in the respective Bank Agreement or otherwise. MCC shall have the right, among other things, to view any Permitted Account statements and activity directly on-line or at such other frequency as the Parties may otherwise agree. By such time as shall be specified in the Disbursement Agreement or as otherwise agreed by the Parties, the Government shall ensure that MCA-Georgia enters into an agreement with each Bank, respectively, satisfactory to MCC, that sets forth the signatory authority, access rights, anti-money laundering and anti-terrorist financing provisions, and other terms related to the Permitted Account, respectively (each, a "**Bank Agreement**"). For purposes of this Compact, any bank holding an account referenced in Section 4(d) of this Program Annex are each a "**Bank**" and, are collectively referred to as the "**Banks**."

(e) Currency Exchange. The Bank shall convert MCC Funding to the currency of Georgia at a rate to which the Parties mutually agree with the Bank in the Bank Agreement.

5. Transparency; Accountability.

Transparency and accountability to MCC and to the beneficiaries are important aspects of the Program and Projects. Without limiting the generality of the foregoing, in an effort to achieve the goals of transparency and accountability, the Government shall ensure that MCA-Georgia:

(a) Establishes an e-mail suggestion box as well as a means for other written comments that interested persons may use to communicate ideas, suggestions or feedback to MCA-Georgia;

(b) Considers as a factor in its decision-making the recommendations of the Observers;

(c) Develops and maintains a website (the "**MCA-Georgia Website**") in a timely, accurate and appropriately comprehensive manner, such MCA-Georgia Website to include postings of information and documents in English and Georgian and other languages where relevant; and

(d) Posts on the MCA-Georgia Website and otherwise makes publicly available from time to time the following documents or information:

(i) The Compact and all Compact Reports;

Committee; (ii) All minutes of the meetings of the Supervisory Board and Stakeholders'

(iii) The M&E Plan, as amended from time to time, along with periodic reports on Program performance;

(iv) All relevant Environmental Impact Assessments and supporting documents;

(v) The Compact and all Compact Reports;

(vi) All audit reports by an Auditor and any periodic reports or evaluations by a Reviewer;

(vii) Disbursement Agreement, as amended from time to time;

(viii) All procurement agreements (including policies, standard documents, procurement plans, and required procedures), requests for proposals, and notices of awarded contracts; and

(ix) A copy of any legislation and other documents related to the formation, organization and governance of MCA-Georgia, including the Governance Regulations, and any amendments thereto.

SCHEDULE 1 to ANNEX I

REGIONAL INFRASTRUCTURE REHABILITATION PROJECT

This Schedule 1 describes and summarizes the key elements of a regional infrastructure rehabilitation Project that the Parties intend to implement in furtherance of the Key Regional Infrastructure Rehabilitated Objective (the "*Regional Infrastructure Rehabilitation Project*"). Additional details regarding the implementation of the Regional Infrastructure Rehabilitation Project will be included in the Implementation Plan and in relevant Supplemental Agreements.

1. Background.

Dilapidated infrastructure, especially the poor condition of the roads, unreliable gas and electricity supply, and deteriorating municipal services, has been consistently identified through the consultative process as a major impediment to economic growth in Georgia. The Government recognizes the importance of adequate and reliable infrastructure services to support manufacturing and commerce, for improved health and the direct impacts on well-being; hence, for economic development more generally.

(a) Samtskhe-Javakheti Road.

The Samtskhe-Javakheti region is one of the poorest regions of Georgia, with a per capita income significantly below the national average and a high dependency on subsistence agriculture. In southern Georgia, deterioration of the roads has cut the region of Samtskhe-Javakheti off from the rest of the country. With high costs to transport produce out of the region, regional farmers are unable to compete with farmers from other regions. Moreover, the poor road infrastructure also creates significant obstacles to importing high quality agricultural inputs and other goods. Rehabilitation of roads in the Samtskhe-Javakheti area is expected to foster economic development in Samtskhe-Javakheti through (i) increasing exports of agricultural products from the region; (ii) increasing social, political and economic integration of the local population in Samtskhe-Javakheti, including ethnic minorities, with the rest of Georgia; (iii) expanding international trade, by providing a more direct transport link from Tbilisi and eastern and southern Georgia to Turkey and by rehabilitating the existing road from Ninotsminda to Armenia; (iv) developing the tourism potential of Vardzia, a World Heritage site; and (v) complementing other road development projects.

(b) Energy Rehabilitation.

Georgia's main trunkline for the transmission of natural gas is the north-south gas pipeline system (the "*Pipeline*"). The Pipeline receives gas at Georgia's northern border with Russia, transports gas to Georgian wholesale customers and transits gas to Armenia. In order to secure additional sources of supply for domestic use in Georgia, plans are also underway for the Pipeline to transport gas from Azerbaijan.

Following the break-up of the Soviet Union and with the decline of the Georgian economy, the Pipeline has not been properly maintained. As a consequence, over the past five years, gas losses have amounted to 5% to 9% annually. In addition, the Pipeline suffers from several flaws that put it in jeopardy of catastrophic failure, potentially cutting off the main source of heating

for some 300,000 households and over 5,000 businesses in 46 cities and 230 villages throughout the country, as well as the source of fuel to generate approximately 30% to 35% of the electricity consumed in the country. The pipeline operating company, Georgia Gas International Corporation ("*GGIC*"), has incurred substantial commercial losses to a point where maintenance is no longer financially possible. The Pipeline has degraded to such an extent that it no longer provides an acceptable level of supply security for Georgia, hindering further economic development. The Pipeline requires a comprehensive rehabilitation program.

The Pipeline plays an important but only a partial role in the country's overall energy balance. In order to support the Ministry of Energy to further develop and implement its energy sector strategy, the Government requires immediate and expert advice in a number of areas.

(c) Regional Infrastructure Development. In the Regions, many governing bodies have been unable to deliver safe, reliable, affordable and accessible public and utility services. It is estimated that more than half the water and sewage systems are beyond their service lives, and similar problems face other services. Local and municipal governments need funding for improvements in regional infrastructure, particularly in water supply, sanitation, irrigation, municipal gasification, roads and solid waste.

2. Summary of Project Activities.

The objective of the Regional Infrastructure Rehabilitation Project is to rehabilitate key regional infrastructure. The Regional Infrastructure Rehabilitation Project includes three Project Activities.

- Samtskhe-Javakheti Road Project Activity (the "*Road Rehabilitation Activity*"). The objective of the Road Rehabilitation Activity is improved transportation for regional trade. The Activity will rehabilitate or construct approximately 245 km of the main road that traverses the Samtskhe-Javakheti region and provide technical assistance for development of a road master plan, maintenance planning and contracting.
- Energy Rehabilitation Project Activity (the "*Energy Rehabilitation Activity*"). The objective of the Energy Rehabilitation Activity is increased reliability of energy supply and reduced losses. The Activity will rehabilitate the Pipeline and provide advisory service to the Government to support the Ministry of Energy to further develop and implement its energy sector strategy.
- Regional Infrastructure Development Project Activity (the "*Regional Infrastructure Development Activity*"). The objective of the Regional Infrastructure Development Activity is improved regional and municipal service delivery. The Activity will provide grants to fund regional and municipal physical infrastructure such as water supply, sanitation, irrigation, municipal gasification, roads and solid waste.

The M&E Plan (described in Annex III) will set forth anticipated results and, where appropriate, regular benchmarks at the Regional Infrastructure Rehabilitation Project level and at each Project Activity level that may be used to monitor implementation progress. Performance against these

benchmarks and the overall impact of the Regional Infrastructure Rehabilitation Project and each Project Activity will be assessed and reported at regular intervals to be specified in the M&E Plan or otherwise agreed by the Parties from time to time. The Parties expect that additional benchmarks will be identified during implementation of each Project Activity. Estimated amounts of MCC Funding for each Project Activity within the Regional Infrastructure Rehabilitation Project are identified in Annex II of this Compact. Conditions precedent to each Project Activity and sequencing of the Project Activities shall be set forth in the Disbursement Agreement or other relevant Supplemental Agreements.

(a) Road Rehabilitation Activity.

(i) Sub-Activities. MCC Funding will be used to:

(1) Rehabilitate or construct, as applicable, the road sections set out below (the "**Project Road**"), as well as (i) rehabilitate and improve existing bridges along the Project Road alignment, (ii) improve existing drainage facilities along the road alignment, (iii) provide road safety features, and (iv) provide local access and ancillary structures:

(A) Teleti-Koda-Tsalka;

(B) Tsalka – Ninotsminda;

(C) Akhalkalaki – Ninotsminda – the Armenian border, and connection to the Turkish border; and

(D) Khertvisi to Vardzia.

(2) Provide technical assistance to the Road Department of the Ministry of Economic Development ("**RDMED**") for the formulation of a road master plan to prioritize investments in the road sector and for maintenance planning and contracting.

(ii) Outside Project Manager. MCC Funding will be used to engage, through a competitive international tender process acceptable to MCC, a project management firm as an Outside Project Manager to manage and supervise the Road Rehabilitation Activity.

(b) Energy Rehabilitation Activity.

(i) Sub-Activities. MCC Funding will be used to:

(1) Rehabilitate the Pipeline by:

(A) Inspecting the Pipeline to identify weaknesses and defects and formulate a prioritized rehabilitation plan addressing the security and integrity of the Pipeline;